NOVA SCOTIA GAMING CORPORATION

2001-2002 ANNUAL REPORT

Corporate Profile

The Nova Scotia Gaming Corporation (NSGC) is a Crown corporation governed by the provincial *Gaming Control Act*. It is responsible for ticket lottery, video lottery and casinos. Day-to-day operations of these businesses are carried out by NSGC's operators – Casino Nova Scotia and the Atlantic Lottery Corporation.

Mission

To provide entertaining and reliable gaming products in a responsible and regulated environment, optimizing the financial benefits for Nova Scotians.

Strategic Goals

- ♦ Provide, through its operators and other business partners, high quality gaming products that are responsive to the needs and expectations of its customers.
- ♥ Continue to identify and implement responsible gaming initiatives and to promote Nova Scotia as a leader in responsible gaming.
- ♣ Meet or exceed revenue commitments to the province.
- ♠ Be an efficient and effective business by managing resources well, leveraging business relationships and focussing on tangible results and outcomes.
- ♦ Pursue new business opportunities that align well with its vision and other strategic goals.
- ♥ Achieve greater public awareness and acceptance of gaming as an entertainment choice.
- ♣ Develop and sustain a corporate culture that values entrepreneurialism, professionalism and excellence and is committed to employing people who are motivated to fulfilling their independent and collective potential.

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Message from the President and CEO

Our mission is straightforward

– to provide entertaining and reliable gaming products in a responsible and regulated environment, optimizing the financial benefits for Nova Scotians.

As the Nova Scotia Gaming Corporation (NSGC) completes its 7th year, we, like other gaming organizations around the world, are experiencing a significant change in the environment and marketplace in which we operate.

Specifically, there is increasing competition for the entertainment dollar, an on-going emergence of new technology that dictates the development and distribution of our products, and a major shift in the commitment to responsible gaming by the gaming industry itself.

There is no question that gaming is a growing industry. If we want it to be sustainable for the long term in Nova Scotia, we must turn our focus to four key concepts. The first and foremost is promoting responsible gaming. The second is ensuring that our products offer high entertainment value. The third is maintaining effective management and the fourth is optimizing benefits to Nova Scotians.

Throughout the year there were a number of initiatives undertaken that supported these key themes. Probably the highest-profiled achievement came in the area of responsible gaming. In May, Nova Scotia was the first gaming jurisdiction in North America to introduce VLTs with four responsible gaming features integrated into the play of the machine.

From an entertainment perspective, new lottery tickets were launched, such as the exciting daily Keno Atlantic, which has proven popular with players. And more seasoned games such as Pro-line and Lotto 6/49 performed strongly. Throughout the year, the casinos played host to top quality entertainers. New Year's Eve saw record-breaking revenues at both the Halifax and Sydney casinos.

Revenue this year was strong with more than $178 million provided to the Province to fund government programs and services that benefit all Nova Scotians.

Another success that will not only mean better access to the Halifax casino but will provide indirect benefits to the downtown core, was an agreement reached between the Gaming Corporation and three other groups to build a 65-metre bridge across a portion of Halifax Harbour. When finished in June 2002, the "Harbourwalk Seabridge" will complete over four kilometres of walkways and wharves, connecting Casino Nova Scotia to Pier 21.

Those are just a few of the operational accomplishments from a very busy 2001-02. As always, we were focussed on the present, ensuring that our businesses performed well. But we were also very focussed on the future and developed some key strategies that will guide the organization over the next few years – strategies that align with the four important concepts that I mentioned earlier.

The year began with the development of a three-year corporate strategic plan, complete with a clear vision, a refreshed mission and seven comprehensive goals. Our new mission is straightforward – to provide entertaining and reliable gaming products in a responsible and regulated environment, optimizing the financial benefits for Nova Scotians.

In conjunction with our planning process, we asked questions of our stakeholders around efficient management, responsible gaming and product entertainment. We were encouraged by the feedback.

Revenue this year was strong with more than $178 million provided to the Province to fund government programs and services that benefit all Nova Scotians.

The relationship with our operators has grown stronger over the years. They want us to continue to lead the way and keep abreast of the gaming industry and its trends.

The public told us that most feel that gaming is entertainment and that it is an individual's right to choose whether or not to partake. They also told us they wanted to know more about how gaming revenue was spent. And, perhaps most importantly, they were quite positive about NSGC's responsible gaming efforts but we believe that they wanted to see even more leadership in this area.

As a customer driven, publicly accountable Crown corporation, it's incumbent upon NSGC to invest the time to map out future business opportunities and overall corporate direction. And with key strategies in place, the stage has been set for significant accomplishments over the next three years.

We're confident that with our strong business focus, highly-regulated environment and balanced, responsible approach, the gaming industry in Nova Scotia will be sustainable for the long-term.

Marie T. Mullally, CA
President and Chief Executive Officer

Commitment to Nova Scotia

World-wide, gaming is an important and growing industry. In Nova Scotia, gaming is well run and strictly regulated in order to ensure an entertaining, responsible and fair gaming environment.

The revenues realized from gaming go directly to the general revenues of government, providing for programs and services that are used by all Nova Scotians. In 2001-02, over $178 million was paid to the Province for use for such things as healthcare and education.

To put this in context, $178 million translates to any one of the following expenditures:

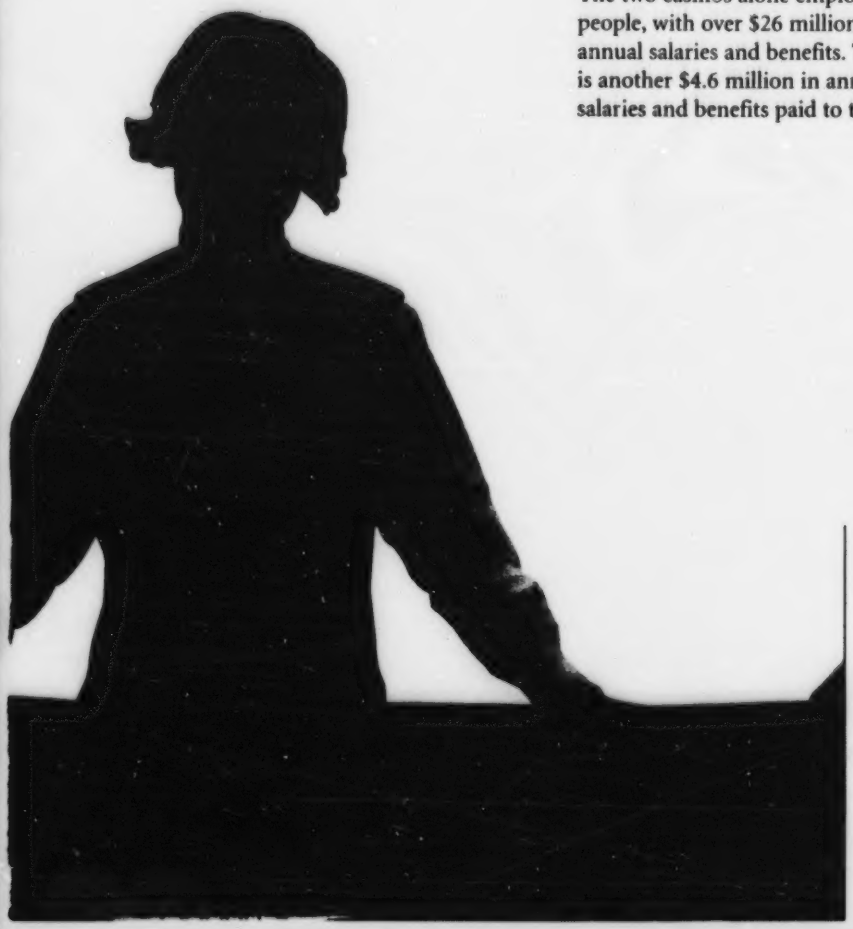
- ♦ Construction of 18 elementary schools
- ♥ Salaries of over 3,560 nurses
- ♣ Construction of 135 kilometres of new two-lane highway
- ♠ The repaving of 1,190 kilometres of highway

This is significant and the benefit to Nova Scotians obvious.

The gaming industry also stimulates jobs and wages for Nova Scotians. The two casinos alone employ 1,100 people, with over $26 million in annual salaries and benefits. There is another $4.6 million in annual salaries and benefits paid to the 90 people employed in Nova Scotia through the Atlantic Lottery Corporation and the Nova Scotia Gaming Corporation.

Through sponsorship programs, both of NSGC's operators – Casino Nova Scotia and Atlantic Lottery – contributed more than a quarter of a million dollars to community events throughout Nova Scotia. These community-focussed activities included such things as the International Air Show, Halifax Natal Day celebrations and various rural exhibitions around the province.

In addition, there are many indirect benefits. Revenue to almost 1,900 retailers totalled over $52 million in 2001-02. Many of these retailers are small business owners and nearly 30% of the VLT retailer groups are non-profit organizations.



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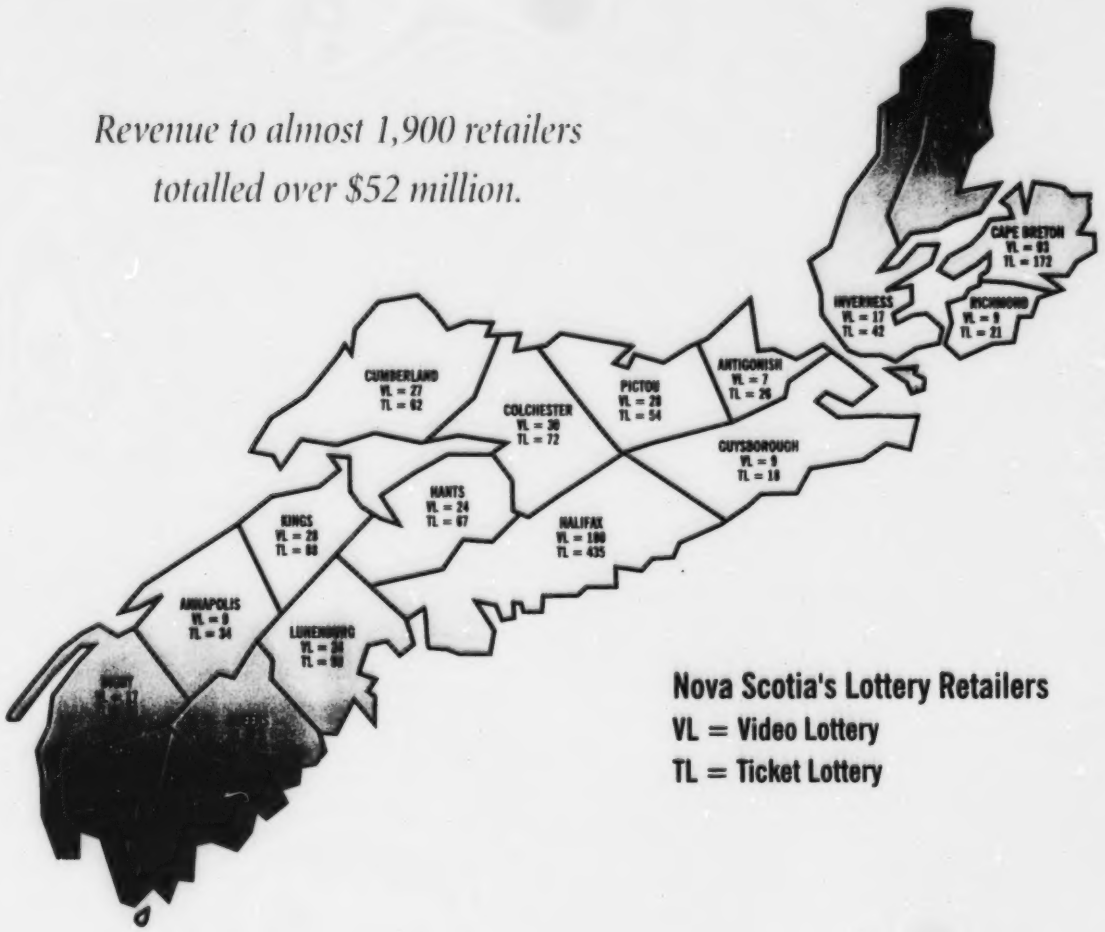
Revenue to almost 1,900 retailers totalled over $52 million.



Nova Scotia's Lottery Retailers
VL = Video Lottery
TL = Ticket Lottery

The following is a partial list of community events sponsored by NSGC's operators:

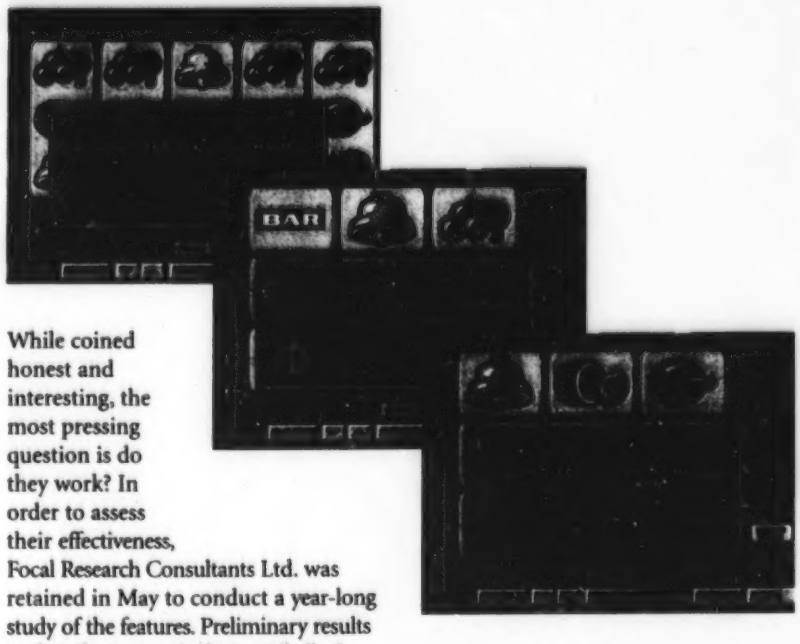
Canadian Cancer Society
Halifax International Busker Festival
50 Expo
Oldtimers' Hockey Challenge
QE II Foundation
USA/Canada Lions Leadership
St. John Ambulance
Arthritis Society – NS Division
Allstars Baseball Benefit
Two Rivers Wildlife Park
United Way of Cape Breton
Le Club Kinsmen de Cheticamp
AIDS Coalition of Cape Breton
Cape Breton Regional Hospital
Cape Breton Screaming Eagles
Open Door Homeless Shelter
Sydney Kinsmen International
Christmas Daddies
Chefs for UNICEF - (WTCC)
Natal Day Celebrations
Atlantic Canada
DuMaurier Jazz Festival
Ride For Sight
Winterfest Hat Gala
Poor Boys Meals
United Way
Harrietsfield Community Centre
South Shore Exhibition
Annapolis Valley Exhibition
S.O.S. Village
Mahone Bay Wooden Boat Festival
Maritime Fall Fair
Granville Green Concert Series
Port Hawkesbury Food Bank
Sydney International Air Show
Cape Breton Exhibition
Firefighters Burn Unit &
St. Vincent De Paul
Sherbrooke Memorial Hospital
Children's Wish Foundation
Riverfront Jubilee
Atlantic Journalism Awards
Big Brother/Big Sister Golf Charity
Canada Summer Games – Team NS
Tim Horton Children's Association
Atlantic Bowl
Canadian Paraplegic Association
of Nova Scotia

Commitment to Responsible Gaming

Last year was a trailblazer for the Nova Scotia Gaming Corporation. In May, NSGC began the replacement of its 3,234 VLTs with ones that have responsible gaming features designed to discourage the excessive use of the terminals; a North American first. By year-end, over half of the terminals had already been replaced.

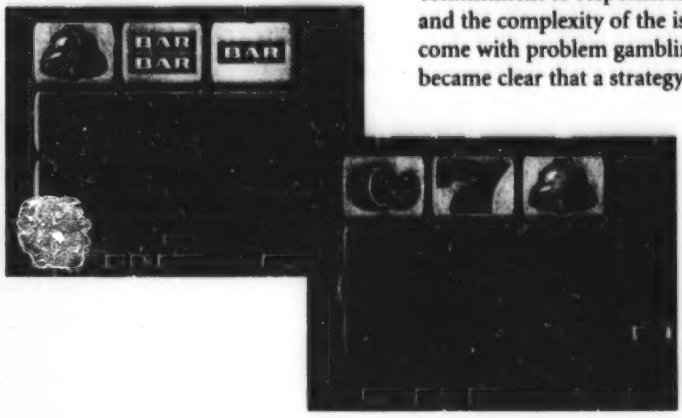
The introduction of these VLTs brought to fruition several years of searching for ways to encourage people to game responsibly while enjoying VLT play. It was recognized that there was the possibility that these features might not work; but it was felt that it was better to forge ahead with the unknown than to sit idle until proven measures had been developed.

In the February issue of the gaming trade magazine "Canadian Gaming News", Dr. Harold Wynne, one of Canada's best known and respected problem gambling experts said, "The Nova Scotia Gaming Corporation is leading the way by installing what they refer to as the 'responsible gaming features' on their VLTs... These are honest and interesting initiatives."



While coined honest and interesting, the most pressing question is do they work? In order to assess their effectiveness, Focal Research Consultants Ltd. was retained in May to conduct a year-long study of the features. Preliminary results to date show promise but, until all of the comparative analysis has been completed, the features' effectiveness cannot be concluded. A final report is expected this summer.

Another key initiative in the area of responsible gaming was the development of a responsible gaming strategy. With NSGC's growing commitment to responsible gaming and the complexity of the issues that come with problem gambling, it became clear that a strategy was needed to guide NSGC's initiatives over the next three years.



This strategy brings focus and provides direction for the future. The goal is not to deal with the prevalence of problem gamblers; that's the role of addiction and treatment specialists. Instead, NSGC is concerned about mitigating the incidence of problem gambling through purposeful strategies.

The responsible gaming strategy is guided by a vision, which is to be a leader in responsible gaming programs and initiatives designed to educate Nova Scotians about responsible gaming and to discourage excessive play. Next year will be the first year of its implementation.

As 2001-02 came to a close, three very important initiatives were in preliminary stages with their main impact to be felt in 2002-03 and beyond.

The first was the establishment of a committee to organize the very first province-wide Responsible Gaming Awareness Week in Nova Scotia. The committee, led by NSGC, will be comprised of representatives from gaming stakeholders, including Casino Nova Scotia, Atlantic Lottery Corporation, VLT profit and non-profit retailers and the Department of Health. The week will be held in October with the purpose of raising awareness of the importance of using gaming products responsibly.

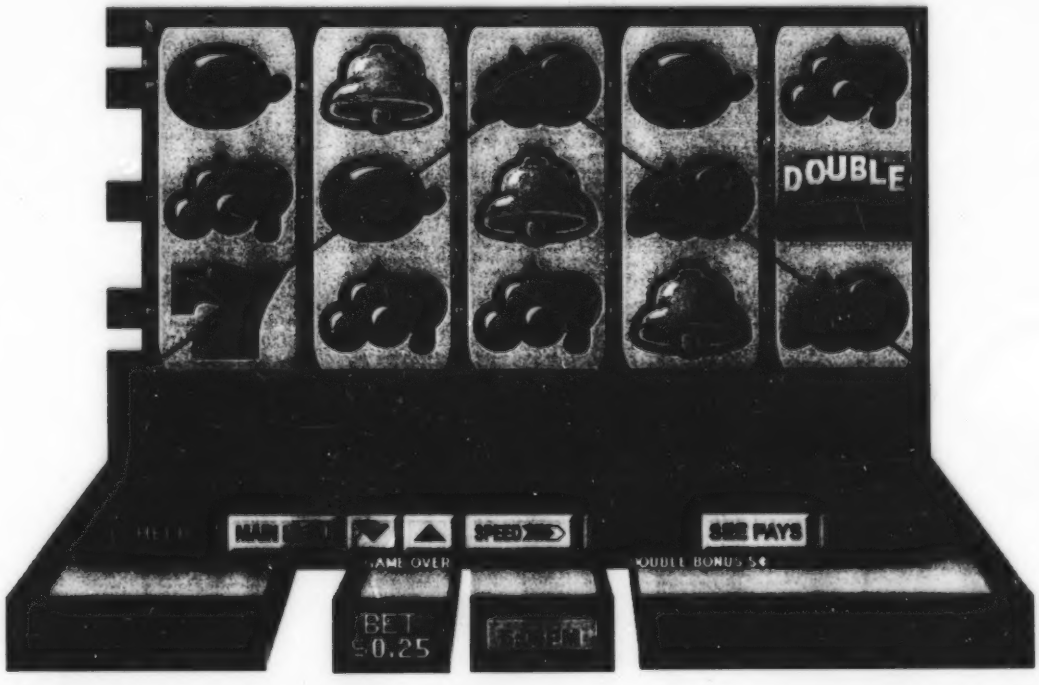
The second initiative just getting underway was the recruitment of a Responsible Gaming Manager who will be specifically dedicated to responsible gaming and who will advance NSGC's three-year responsible gaming strategy.

"The Nova Scotia Gaming Corporation is leading the way by installing what they refer to as the 'responsible gaming features' on their VLTs... These are honest and interesting initiatives."

Dr. Harold Wynne, PhD
Researcher

Finally, work was nearly completed on a presentation entitled - Nova Scotia: Focus on Responsible Gaming - for Ontario's Responsible Gambling Council Discoveries 2002 conference. NSGC was chosen to present from among 118 abstract submissions and was one of the few organizations selected involved in the business of gaming.

This, combined with a $2 million annual contribution to treat and research problem gambling, goes far in demonstrating Nova Scotia's commitment to responsible gaming.



Commitment to Entertainment

The Nova Scotia Gaming Corporation strongly believes that gaming is meant for enjoyment and therefore providing solid entertainment is key to its overall success.

At the casinos, performers such as the Amazing Kreskin, Amy Sky, Martin Dubé and the Irish Descendants delighted audiences throughout the year. And 400 new slots were added to the casino in Halifax.

At the casinos, performers such as the Amazing Kreskin, Amy Sky, Martin Dubé and the Irish Descendants delighted audiences throughout the year.

On October 1, the largest slot jackpot in Nova Scotia's history was won at the Sydney casino, with the player going home with $267,567. This breaks the previous jackpot record of $146,850.

Both casinos broke daily revenue records on New Year's Eve, resulting from strong visitation at both casinos with a combined total of over 15,000 visitors. Also on December 31, the Halifax casino set a new coin-in record for its slots. Customers deposited more than $4.2 million when playing their favourite games. Of course, more than $3.7 million was paid back to the players in prizes.

Player research showed that people generally enjoyed themselves when visiting the casinos. Over 70 per cent rated their overall opinion of the casino as "excellent" or "very good" and almost 90 per cent were "completely" or "mostly satisfied" with the facilities and amenities.

NSGC's other valued operator – the Atlantic Lottery Corporation (ALC) – celebrated its silver anniversary this year. In September, it turned 25 and the festivities were shared with employees and customers through a special lottery ticket, informal gatherings, public tours of the ALC complex in Moncton, New Brunswick, and distinctive mementoes.

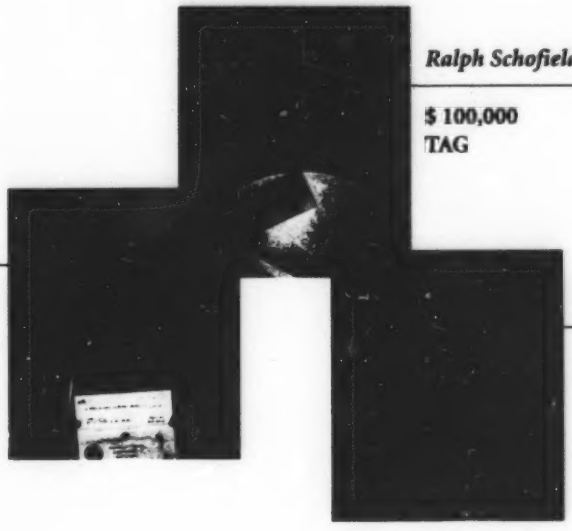
The daily game Keno Atlantic was introduced in October offering high entertainment value and exceptional choice for consumers. It has proven successful and has outperformed expectations, bringing in an average of $150,000 per week.

The largest slot jackpot in Nova Scotia's history was won at the Sydney casino, with the player going home with $267,567.

Another more seasoned lottery ticket enjoyed heightened popularity this year. Pro-line performed well during the NBA basketball playoffs and, this year, players had the opportunity to wager on wins, losses and ties in baseball games, a change that was well received.

On the video lottery side of things, ALC staff worked diligently to ensure that the replacement of the old VLTs with the more responsible, innovative ones went efficiently so as not to interfere with the players or retailers. The new, more interactive games offered on these terminals have a broader, more diversified appeal.

As with Casino Nova Scotia, ALC received accolades from both its retailers and its customers. Over 93 per cent of ALC customers rated the level of customer service at retail convenience stores as "excellent" or "good". And 96 per cent of ALC retailers said that their overall satisfaction with ALC's service was "good" or "very good".



Ralph Schofield

$ 100,000
TAG

Dianne Asprey

$ 675,000
Set for Life

Helen Batherson

$ 50,000
Keno Atlantic

Commitment to Effective Management

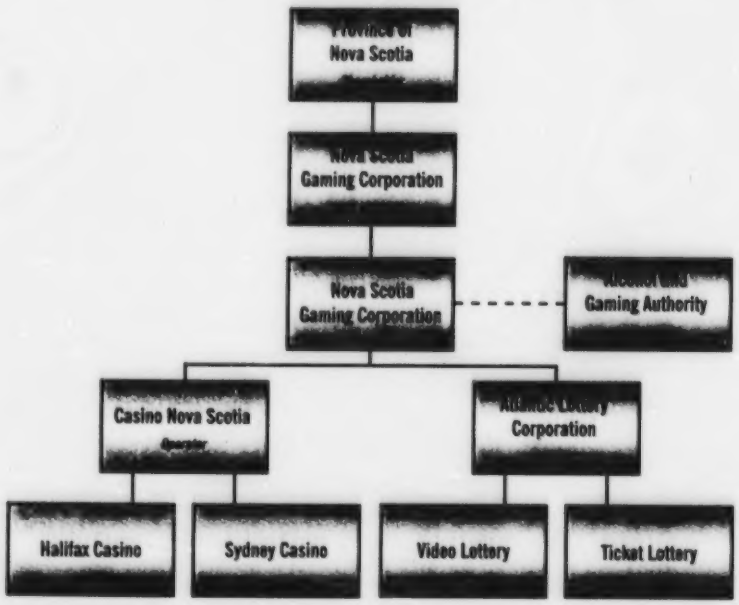
Nova Scotians expect efficient operations from the Nova Scotia Gaming Corporation. As importantly, NSGC employees demand it of themselves and recognize the need for solid planning.

In order to work effectively, an organization must be focussed. In 2001-02, a strategic plan was developed to guide NSGC's activities over the next three years.

From the strategic plan flowed the development of more tactical strategies integral to ensuring that NSGC is well positioned to meet its three-year goals. A corporate communications strategy was developed that will make certain that relevant gaming information is passed along to key stakeholders, including retailer groups, customers and the public at large. A relationship management strategy was developed that guides NSGC in leveraging and maintaining mutually beneficial relationships with its operators. And a long-term responsible gaming strategy will ensure important initiatives in this area are advanced.

Beyond this important planning, NSGC filled the role of overseeing the province's gaming activities and looked at ways to ensure a fair, but effective, optimization of profits.

Nova Scotia's Gaming Regime



For example, in September NSGC approved $91.3 million as the total cost for constructing the Halifax Casino, which was well within the approved costs outlined in the Construction Contract. The original projected costs for the casino was $97 million, plus or minus 12 per cent. The $91.3 million was $2.5 million below the costs submitted by Casino Nova Scotia. NSGC was of the position that additional costs had been incurred (i.e. contract penalties and additional rent and insurance) as a result of a work stoppage order in 1998.

These savings are important as all of NSGC's profits go directly to the general revenues of the government. Therefore, any money saved through efficient management means extra money for programs and services used by Nova Scotians.

Another solid business practice was introduced for the Video Lottery program. The VLT Asset Management Program provides the opportunity to efficiently manage NSGC's investment in its VLTs and more effectively meet retailer and player demand. It will help

Nova Scotians expect efficient operations from NSGC... NSGC employees demand it of themselves

maximize the return on investment by moving low performing VLTs to locations where there is more demand. Again, a better return on investment means more money for such things as healthcare and education.

In NSGC's 2001-02 Business Plan, 13 corporate and business-specific priorities had been identified and all were accomplished. These priorities included:

- ♦ Develop a Corporate Strategic Plan
- ♥ Develop a relationship strategy for both operators
- ♣ Implement training and development initiatives in order to increase knowledge of the gaming industry
- ♠ Evaluate opportunities to minimize NSGC's cost of operations, including the costs of its operators
- ♦ Continue the development and implementation of effective business practices to facilitate the achievement of business goals
- ♥ Focus marketing activities on player development
- ♣ Complete the slot replacement strategy
- ♠ Leverage gaming revenues through food and beverage and entertainment operations
- ♦ Develop new products within the Ticket Lottery business line
- ♥ Develop a Ticket Inventory Management System (TIMS) Strategic Sales Management Program
- ♣ Expand product distribution channels
- ♠ Continue NSGC's commitment to responsible gaming by replacing its existing VLTs with machines that have responsible gaming features
- ♦ Conduct an evaluation of the responsible gaming features

As always, under section 24(1)(e) of the *Gaming Control Act*, NSGC is required to report any defect, abuse, illegality or criminal activity regarding gaming. During 2001-02, NSGC reported a number of incidents to the Minister of Finance and the Nova Scotia Alcohol and Gaming Authority. The majority of incidents were routine in nature, such as equipment malfunctions that did not impact on player fairness. These were centrally monitored and immediately investigated by NSGC's operators. A few product irregularities were reported during the year. These were investigated, corrected and, if necessary, preventative measures were implemented.

Any money saved through efficient management means extra money for programs and services used by Nova Scotians.

***Board of Directors** (left - right)*

Sean O'Connor
John Khattar
Peter Fardy
Stephen Mont

***President and CEO** (seated)*

Marie T. Mullally

Financial Highlights

For the Year Ended March 31, 2002

CORPORATE

- The Nova Scotia Gaming Corporation (NSGC) had a solid year in 2001-02 with a payment to the Province of $178 million, compared to $174 million in 2000-01. In particular, the lotteries performed strongly.

- In January 2000, the Atlantic Lottery Corporation's shareholders agreed to a new profit distribution formula, resulting in a more direct and appropriate allocation of expenses. NSGC received an additional $4.2 million in 2001-02 as a result of this change.

CASINOS

- The Halifax casino revenues grew from $69.2 million in 2000-01 to $71.5 million in 2001-02 due to a 2.2% increase in gaming revenues and a 14.9% increase in food, beverage and other revenues. The payment to the Province was $2.9 million lower than the previous year as it was the first full year of amortization expense of the permanent $91.3-million Halifax facility.

- The Sydney casino payment to the Province was $12.9 million which is $0.6 million higher than the previous year primarily as a result of effective expense management.

TICKET LOTTERY

- Revenue for ticket lottery was approximately the same as last year at $204.4 million. Net income, however, was $46 million, $2.9 million lower than in 2000-01. This decrease in income was expected primarily due to higher lease expenses for the new, state-of-the-art retailer terminals. NSGC invested more than $11 million in these new retailer terminals over the last two years.

VIDEO LOTTERY

- Revenue for video lottery was $161.7 million, $15.2 million higher than the previous year due to the strong performance of the 1,640 new and upgraded terminals with four responsible gaming features rolled out during the year as part of the VLT Replacement Plan. As a result, net income was $111.6 million, $8.9 million higher than 2000-01. NSGC invested $18.2 million in new VLTs that were rolled out in 2001-02.

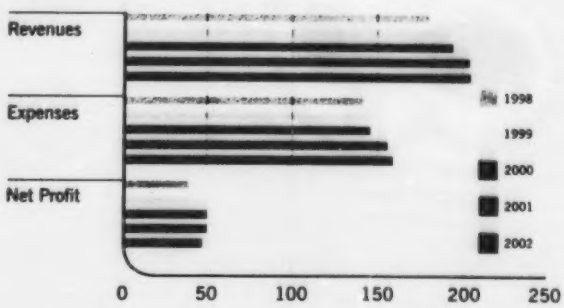
Financial Results *($ millions) by Business Line*

Profits/Payment to Province*

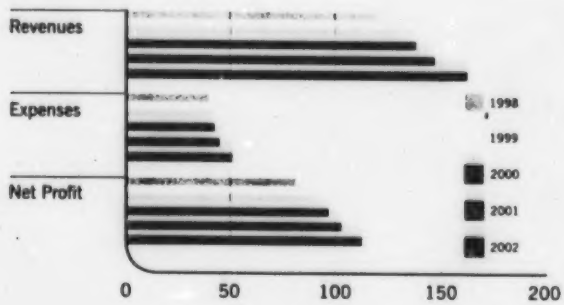
	01/02	00/01	99/00	98/99	97/98
Casino	$ 25.3	$ 27.5	$ 32.3	$ 28.0	$ 20.7
Ticket Lottery	$ 46.0	$ 49.0	$ 48.9	$ 38.7	$ 38.9
Video Lottery	$ 111.6	$ 102.7	$ 96.1	$ 88.4	$ 80.4

*Does not include responsible gaming and other expenses.

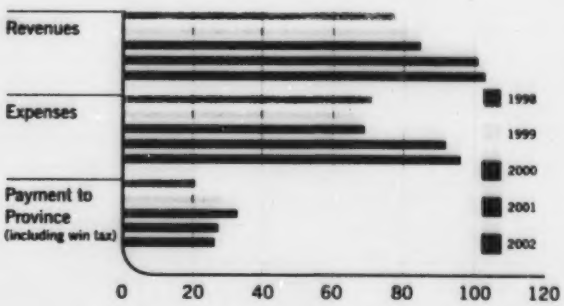
Ticket Lottery
Annual Results *($ millions)*



Video Lottery
Annual Results *($ millions)*



Casinos
Annual Results *($ millions)*



The Nova Scotia Gaming Corporation had a solid year in 2001-02 with a payment to the Province of $178 million, compared to $174 million in 2000-01.

Management Responsibilities for Financial Reporting

These financial statements are the responsibility of the management of the Nova Scotia Gaming Corporation. They have been approved by its Board of Directors.

Management has prepared the financial statements in accordance with generally accepted accounting principles in Canada. The financial information contained in the Annual Report is consistent with the data presented in the financial statements.

The gaming activities of the Nova Scotia Gaming Corporation are undertaken by operators acting on its behalf. These gaming activities are audited by independent auditors. The Corporation relies on the audit opinions of these independent auditors. The responsibility of the Auditor General of Nova Scotia is to express an independent opinion on whether the financial statements of the Nova Scotia Gaming Corporation are stated fairly, in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

The Nova Scotia Gaming Corporation maintains books of accounts and systems of financial and management control, which provide reasonable assurance that accurate financial information is available, that assets are protected, and that resources are managed efficiently.

The Board of Directors oversees audit activities through its audit committee. The committee reviews matters related to accounting, auditing and internal control systems, and the financial statements and audit reports of the auditors of the Corporation and its operators.

M. Mullally

Marie T. Mullally, *CA*
President and Chief Executive Officer

Lisa M. Jardine

Lisa M. Jardine, *CA*
Corporate Controller

Auditor's Report

NOVA SCOTIA

Office of the Auditor General

To the Members of the Legislative Assembly
of Nova Scotia; and
To the Minister of Finance

I have audited the balance sheet of the Nova Scotia Gaming Corporation as at March 31, 2002, the statement of income and payment to the Province and the statement of retained earnings for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

E R Salmon

E.R. Salmon, *FCA*
Auditor General
Halifax, Nova Scotia
May 31, 2002

Balance Sheet

as at March 31, 2002 (in thousands)

ASSETS

	2002	2001
Current		*(Note 14)*
Cash & Short-term Investments *(Note 3)*	$ 15,836	$ 17,123
Cash – Restricted *(Note 2)*	9,605	6,991
Inventory, at cost	2,448	2,500
Prepaids	253	251
	28,142	26,865
Long-term		
Cash – Casino Replacement Reserve *(Note 3)*	5,721	5,080
Investment in Atlantic Lottery Corporation Inc.	1	1
Investment in Interprovincial Lottery Corporation *(Note 6)*	1	1
Capital Assets *(Note 7)*	126,772	114,693
	132,495	119,775
	$ 160,637	$ 146,640

LIABILITIES

Current		
Accounts Payable	$ 781	$ 1,298
Deferred Lottery Revenue	745	923
Liabilities for Unclaimed Prizes *(Note 2)*	9,605	6,991
Capital Obligation – Current Portion *(Note 8)*	31,491	22,496
Due to Operators *(Note 12)*	8,970	10,122
Due to Atlantic Gaming Equipment Limited – Current Portion	7,398	2,296
Due to Nova Scotia Gaming Foundation	76	68
Due to Province of Nova Scotia	13,953	13,706
	73,019	57,900
Long-term		
Due to Atlantic Gaming Equipment Limited	21,448	9,822
Capital Obligation *(Note 8)*	58,648	72,451
	80,096	82,273
	153,115	140,173

EQUITY

Casino Capital Replacement Reserve *(Note 9)*	7,522	6,467
	$ 160,637	$ 146,640

Contingencies and Commitments *(Notes 3, 5, 11, and 13)*

Approved on behalf of the Board,

C. Sean O'Connor, CA
Chair

See accompanying notes to the financial statements.

Statement of Income and Payment to the Province

for the year ended March 31, 2002 (in thousands)

	Ticket Lottery	Video Lottery	Halifax	Sydney		
Revenues	$ 204,421	$ 161,686	$ 71,452	$ 30,565	$ –	$ 817
Expenses	158,375	50,074	71,905	23,459	1,964	3,792
Net Income	46,046	111,612	(453)	7,106	(1,964)	(2,975
Win Tax	–	–	12,906	5,757	–	–
Payment to Province	$ 46,046	$ 111,612	$ 12,453	$ 12,863	$ (1,964)	$ (2,975

Statement of Retained Earnings

for the year ended March 31, 2002 (in thousands)

	2002	2001
Retained Earnings, Beginning of Year	$ –	$ –
Net Income	159,372	155,543
Net Income Paid to Province	(159,372)	(155,543)
Retained Earnings, End of Year	$ –	$ –

See accompanying notes to the financial statements.

	2001						
	Lotteries (Schedule I)		Casinos (Schedules II-VII)		Responsible Gaming	Other (Schedule V)	
2002 Total	Ticket Lottery	Video Lottery	Halifax	Sydney			2001 Total (Note 14)
$ 468,941	$ 204,055	$ 146,497	$ 69,182	$ 31,029	$ -	$ 1,016	$ 451,779
309,569	155,071	43,817	66,509	24,652	1,732	4,455	296,236
159,372	48,984	102,680	2,673	6,377	(1,732)	(3,439)	155,543
18,663	-	-	12,631	5,861	-	-	18,492
$ 178,035	$ 48,984	$ 102,680	$ 15,304	$ 12,238	$ (1,732)	$(3,439)	$ 174,035

Notes to the Financial Statements

for the year ended March 31, 2002 (in thousands)

1 Description of Business

The Corporation was incorporated on February 15, 1995 by Chapter 4 of the Acts of 1994-95, the *Gaming Control Act*. The purpose of the Corporation is to develop, undertake, organize, conduct and manage casinos and other lottery schemes on behalf of the Province.

2 Accounting Policies

a) Basis of Presentation
The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. A statement of cash flows is not provided, as disclosure in the balance sheet and the income statement is considered adequate.

b) Casino Revenues
In accordance with industry practice, casino revenues are reported as the net win from gaming activities, which is the difference between amounts wagered and amounts paid as winnings. Casino revenues are reported net of accruals for anticipated amounts to be paid as winnings for progressive slot machine jackpots.

c) Ticket Lottery Revenues
In accordance with industry practice, gross ticket lottery sales are recorded before deducting sales discounts and prize expense.

d) Video Lottery Revenues
In accordance with industry practice, video lottery revenues are reported as the net revenues from video lottery activities, which is the difference between amounts wagered and amounts paid as winnings.

e) Income Guarantee
In accordance with the Operating Contract between Metropolitan Entertainment Group (Operator), the Corporation and Sheraton International Inc. (Guarantor), an income guarantee was provided to the Corporation which provided that if Total Provincial Revenue was less than $25 million in each of the four years ended July 31, 1999, then the Operator would pay to the Corporation an amount equal to the difference between Total Provincial Revenue and $25 million.

If Total Provincial Revenue exceeded $25 million in any year through to July 31, 2000, any previous guarantee payments paid by the Operator to the Corporation would be recovered to the extent Total Provincial Revenue was in excess of $25 million in such year. The Corporation records any repayments to the Operator as a reduction of net income of the Corporation. *(Note 3)*

f) Capital Assets
Capital Assets are stated at cost less accumulated amortization.

Amortization of the Corporation's head office capital assets is provided on the declining balance basis at the following annual rates:

Computer Equipment – 30%

Furniture and Equipment – 20%

Amortization of the Halifax and Sydney casino assets is recorded on a straight-line basis according to their estimated useful lives at rates between 2.5% and 20%.

Amortization on the Corporation's capital assets used in the operation of its lottery businesses is recorded on the straight-line basis according to their estimated useful lives at rates between 10% and 33%. Leasehold improvements are amortized over the remaining lease term, including one renewal period.

g) Nova Scotia Gaming Foundation Contribution
VLT retailers in Nova Scotia have agreed, under the terms of their retailer agreements with the Atlantic Lottery Corporation Inc., to contribute 1% of their

VLT commission to the Nova Scotia Gaming Foundation. The Corporation has agreed to contribute an amount equal to all contributions made by the VLT retailers.

h) Long-term Investments

Investments in the Atlantic Lottery Corporation Inc. and the Interprovincial Lottery Corporation are recorded using the cost method of accounting for investments.

i) Unclaimed Lottery Prizes

Unclaimed prizes from regional lottery games are retained in a prize fund for one year from the announced beginning date of the draw. Prizes of national lottery games are funded directly by the Interprovincial Lottery Corporation, with the exception of prizes for certain free tickets, which are paid out of general funds as incurred.

j) Use of Estimates

In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Casino Nova Scotia

a) Operating Contract

i) Term and Structure

On May 31, 1995, the Corporation entered into an Operating Contract with Metropolitan Entertainment Group (Operator), then a partnership between ITT Sheraton Canada Ltd. (now Park Place Entertainment Scotia Limited) and Purdy's Wharf Development Limited (now East Port Properties Ltd.), to operate casinos in Halifax and Sydney for a period expiring on December 31, 2015.

ii) Payments to Operator

The Operator is entitled to certain payments from each casino, calculated with reference to the following items, which are listed in Section 4.7 of the Operating Contract:

- an amount based upon the Operator's Capital Investment in Halifax ($91.3 million total, $81.6 million outstanding) and Sydney ($23.2 million total, $7.7 million outstanding) with respect to each casino complex, to be amortized straight-line over a ten year term in the Sydney casino and a seven year term in the Halifax casino, with interest calculated monthly at 12% per annum on the total outstanding capital investment;
- an amount equal to 1.5% of casino revenue before casino win taxes (20%) to fund a capital replacement reserve;
- an amount equal to 3% of casino revenue before casino win taxes (20%) in Sydney as a Base Fee and 10% of casino revenue less casino win taxes, the Base Fee and Operating Expenses as an Incentive Fee;
- an amount equal to the Operator's shortfall in any one year that income is insufficient to make payments, as described above; and,
- an amount equal to 35% of cash available for distribution in Halifax.

iii) Operating Period

Net operating income earned by the Corporation is calculated based upon the operating period defined in the Operating Contract as January 1 – December 31. Any net operating income earned by the Corporation during the period January 1 – March 31, 2002 is subject to adjustment for the results of operations in the period April 1 – December 31, 2002.

Notes to the Financial Statements
(continued)

b) **Cash in Casino Accounts**
Under the Operating Contract, the cash is managed by the Operator on behalf of the Corporation. The Corporation has included $10,003,000 (2001 - $11,140,000) in cash from the Casino Accounts on the Balance Sheet.

c) **Income Guarantee**
The income guarantee and clawback periods were over on July 31, 2000. Between April 1, 2000 and July 31, 2000, Total Provincial Revenue exceeded the income guarantee pro-rata allocation by $700,000, which reduced the Corporation's net operating income for the 2000-01 year *(Note 2)*.

In 2001-02, the Corporation received $849,000 in HST savings related to the income guarantee and clawback periods, which was repaid to the Operator.

d) **Casino Option Contract**
Upon expiration of the Operating Contract in 2015, the Corporation has the option to purchase each of the Halifax and the Sydney casino complexes, including capital assets and working capital totalling $3.1 million for the price of $1.00. The Corporation also has an option to purchase each of the two casino complexes in year 10 or year 15 of the Contract.

e) **Capital Replacement Reserve**
A capital replacement reserve, based on 1.5% of annual gross operating revenues of the casinos, is intended to provide for replacement of casino capital assets.

4 Atlantic Lottery Corporation Inc.

a) **Profit Distribution**
In 1976, the Atlantic Lottery Corporation Inc. was set up by the four Atlantic Provinces to operate lottery and gaming activities in the region.

The Atlantic Lottery Corporation Inc. is the Corporation's exclusive agent to operate ticket lotteries and video lotteries in Nova Scotia. Each of the Corporation, Province of Newfoundland, Lotteries Commission of New Brunswick and Prince Edward Island Lotteries Commission own 25 per cent of the Atlantic Lottery Corporation Inc.

b) **Agency Agreement**
The Corporation entered into an Agency Agreement (the "Agreement") with the Atlantic Lottery Corporation Inc. whereby the Corporation has appointed the Atlantic Lottery Corporation Inc. to operate ticket and video lotteries in Nova Scotia as an agent of the Corporation on the terms and conditions set out in the Agreement. Under the Agreement, the Atlantic Lottery Corporation Inc. cannot make any material change relating to the conduct and management of lotteries in Nova Scotia without the approval of the Corporation. The Agreement has not yet been signed; however, it has been implemented operationally since April 1, 2000. Management does not believe that there will be any significant changes to the financial statements as a result of signing the Agreement.

The Agreement requires that the Corporation's revenues be kept in a separate account and not co-mingled with those of the other provinces. The Corporation's costs are to be deducted from its account. The Agreement clarified that assets acquired or liabilities incurred by the Atlantic Lottery Corporation Inc. exclusively for the operation of the lotteries in Nova Scotia are the Corporation's. As a result, for financial statement reporting purposes, the Corporation has included these assets and liabilities on its balance sheet, with the balance recorded as amounts due to the Atlantic Lottery Corporation Inc. or Atlantic Gaming Equipment Limited (a subsidiary of the Atlantic Lottery Corporation Inc.), as appropriate. The Corporation has not recorded any portion of those assets and liabilities that are shared by all Atlantic Lottery Corporation Inc. shareholders in which the

Corporation has an interest, the treatment and valuation of which has not yet been determined. This includes common capital assets and expired prizes in the unclaimed prize fund pre-April 1, 2000. Consideration will be given to recording these assets and liabilities once the Atlantic Lottery Corporation Inc.'s By-Laws are revised, which is expected to occur in 2002-03.

The amounts due to the Atlantic Lottery Corporation Inc. and Atlantic Gaming Equipment Limited represent a portion of the Atlantic Lottery Corporation Inc.'s line of credit, which bears interest at prime less 1% on borrowings equal to funds on deposit and prime for amounts borrowed in excess of funds on deposit and bank term loans. These loans have various terms and interest rates from 4.56% to 5.64% maturing at various dates through October 2006. The line of credit is secured by a general security agreement over all assets of the Atlantic Lottery Corporation Inc., and those owned by the Corporation. The bank term loans are secured by a general security agreement over present and future assets held by the Atlantic Lottery Corporation Inc. and Atlantic Gaming Equipment Limited and an indenture of subordination from the Corporation up to the value of the assets utilized directly for the benefit of Nova Scotia.

The assets and liabilities recorded by the Corporation are recorded for financial statement reporting purposes only and do not necessarily represent the values that the Corporation would take if it were to withdraw from the Atlantic Lottery Corporation Inc.

5 Special Payments and Bonus Commissions

The Corporation is obligated to make direct payments annually to three provincial government bodies as follows:

	2002	2001
($ thousands)		
The Department of Education and Culture *(in support of the Cultural Federation of Nova Scotia)*	$ 50	$ 50
The Department of Agriculture and Fisheries *(in support of the Exhibition Association of Nova Scotia)*	50	50
The Sport and Recreation Commission *(in support of Sport Nova Scotia)*	100	100
	$200	$200

These payments are special funds under the *Provincial Finance Act* established by the Minister of Finance under Section 14(1) of the *Atlantic Lottery Regulations* as made under the *Gaming Control Act.*

Bonus commissions of $9,000 (2001 - $13,000) were paid during the year to ten sporting and cultural organizations.

6 Interprovincial Lottery Corporation

The Interprovincial Lottery Corporation was incorporated on August 16, 1976 under the *Canada Business Corporations Act.* The Interprovincial Lottery Corporation owns and operates nation-wide lottery games (Lotto 6/49, Super 7, Special Event-Celebration). Nova Scotia holds one of ten shares of this Corporation, and appoints one of 21 directors to the Board of Directors of the Interprovincial Lottery Corporation.

Notes to the Financial Statements

continued

7 Capital Assets

($ thousands)	Cost	Accumulated Amortization	2002 Net Book Value	2001 Net Book Value
Automotive	$ 986	$ 357	$ 629	$ 464
Computer equipment	3,497	726	2,771	1,948
Furniture & equipment	128	54	74	85
Leaseholds	610	214	396	438
Halifax casino assets	91,257	8,730	82,527	86,160
Sydney casino assets	23,206	10,317	12,889	13,714
Casino furniture & equipment	3,601	1,800	1,801	1,386
On-line gaming terminals	11,008	2,349	8,659	8,236
Video lottery terminals	37,093	20,067	17,026	2,262
	$171,386	$44,614	$126,772	$114,693

In 2001-02, the Corporation acquired capital assets of $20.9 million (2001 - $4.9 million) financed through Atlantic Gaming Equipment Limited, $2.1 million (2001 - $89.1 million) financed by Metropolitan Entertainment Group, and $1.1 million (2001 - $0.4 million) financed by the Casino Capital Replacement Reserve.

8 Capital Obligation

The Corporation has an obligation under the Operating Contract to repay the operator of the casinos for the initial cost of the Halifax and Sydney casinos to the extent that there is adequate cash flow from the casinos to fund these obligations. The Corporation has the option to purchase these casinos. Future minimum obligations based on there being adequate cash flow are as follows:

($ thousands)	Halifax	Sydney	Total
2003	$ 36,406	$ 3,121	$ 39,527
2004	18,708	2,843	21,551
2005	17,143	2,564	19,707
2006	15,579	793	16,372
2007	14,014	-	14,014
Subsequent	1,097	-	1,097
Net minimum obligation	102,947	9,321	112,268
Less: amount representing interest at 12%	20,543	1,586	22,129
Present value of minimum obligation	82,404	7,735	90,139
Less: amount due within one year	29,170	2,321	31,491
Balance of obligation	$ 53,234	$ 5,414	$ 58,648

9 Capital Replacement Reserve Liability

($ thousands)	Halifax	Sydney	Total 2002	Total 2001
Cash balance, beginning of year	$3,573	$1,507	$5,080	$3,699
Funding	1,072	459	1,531	1,504
Interest	139	46	185	314
Capital asset purchases	(368)	(707)	(1,075)	(437)
Cash balance, end of year	4,416	1,305	5,721	5,080
Add: cumulative capital asset purchases	1,852	1,748	3,600	2,525
Less: accumulated amortization	(1,074)	(725)	(1,799)	(1,138)
Balance, end of year	$5,194	$2,328	$7,522	$6,467

10 Related Party Transactions

The Province of Nova Scotia, Nova Scotia Harness Racing Incorporated, Atlantic Gaming Equipment Limited and the Atlantic Lottery Corporation Inc. are related parties of the Corporation. Details of any transactions between these related parties are separately disclosed in the financial statements.

11 Harness Racing

The Corporation annually contributes to the Nova Scotia Harness Racing Fund amounts approved by the Minister of Finance. In March 2001, Government approved a contribution of up to $1 million in 2001-02 to support the harness racing industry in Nova Scotia.

In March 2002, Government approved a $750,000 contribution in 2002-03 to support the harness racing industry in Nova Scotia.

12 Due to Operators

($ thousands)	2002	2001
Due to Atlantic Lottery Corporation Inc.	$ 60	$ 786
Due from Lottery Operations	(6,515)	(6,396)
Due to Lottery Operations	6,341	5,769
Due to Casino Operations	9,084	9,943
	$ 8,970	$ 10,122

13 Other Commitments

The Corporation is required to make annual lease payments of approximately $107,000 over the next four years.

The Corporation's share of the Atlantic Lottery Corporation Inc.'s minimum annual lease payments for the premises is approximately $864,000 over the next five years. Its share of commitments to acquire Video Lottery Terminals in 2002-03 is $5,680,000.

14 Comparative Figures

Some of the comparative figures have been reclassified to conform to the financial statement presentation adopted in this fiscal year.

15 Pensions

All permanent employees of the Corporation are entitled to receive pension benefits under the Province of Nova Scotia *Public Service Superannuation Act*. The plan is funded by equal employee and employer contributions. The employer contributions are included in the Corporation's management expenses. The Corporation is not responsible for any unfunded liability with respect to the superannuation fund.

16 Subsequent Event

Casino Nova Scotia has engaged a consultant to review the HST Regulations applicable to casino operations and determine whether there are potential HST savings. In May 2002, the Corporation received $427,000 in HST savings related to the period July 1998 to April 2000. All adjustments are recorded in the period received. The interpretation of the HST Regulations for other costs is currently under review.

Ticket Lottery and Video Lottery Operating Results

for the year ended March 31, 2002 (in thousands)

SCHEDULE I

	Ticket Lottery	Video Lottery	Total 2002	Total 2001
Ticket Lottery Sales	$ 204,421	$ -	$ 204,421	$ 204,055
Ticket Lottery Sales Discounts	297	-	297	62
Prize Expense	106,637	-	106,637	107,528
Net Ticket Lottery Sales	97,487	-	97,487	96,465
Net Video Lottery Sales	-	161,686	161,686	146,497
Total Net Sales	97,487	161,686	259,173	242,962
Retailer Commissions	13,176	34,783	47,959	44,716
Ticket Costs	5,325	338	5,663	5,193
	18,501	35,121	53,622	49,909
Gross Profit	78,986	126,565	205,551	193,053
Operating Expenses				
Advertising & Promotion	3,711	-	3,711	3,644
Communication	294	154	448	330
Depreciation & Amortization	669	713	1,382	1,969
Development & Recruitment	340	131	471	402
Equipment & Maintenance	972	953	1,925	2,305
General & Professional Services	1,546	247	1,793	1,058
Lease Expense	2,534	2,063	4,597	1,110
Movement & Storage	511	76	587	592
Occupancy Cost	811	498	1,309	1,224
Other	184	82	266	224
Research & Development	341	123	464	342
Salaries & Benefits	6,469	3,504	9,973	9,193
Supplies	238	86	324	234
Telecommunication	2,278	190	2,468	2,135
Travel & Vehicle Expenses	800	575	1,375	1,347
Total Operating Expenses	21,698	9,395	31,093	26,109
Operating Profit	57,288	117,170	174,458	166,944
Other Income (expenses)	(48)	1,009	961	1,166
Profit Before Other Distributions	57,240	118,179	175,419	168,110
HST Expense	5,223	6,092	11,315	10,215
Federal Contribution	1,081	475	1,556	1,516
Charity Non-Profit	44	-	44	45
Retailer Bonus	4,846	-	4,846	4,670
Net Profit	$ 46,046	$ 111,612	$ 157,658	$ 151,664

Halifax Casino Nova Scotia Operating Results

for the year ended March 31, 2002 (in thousands)

SCHEDULE II

	2002	2001 (Note 14)
Revenue		
Casino Revenue	$ 64,531	$ 63,157
Beverage, Food and Other Revenue	6,921	6,025
	71,452	69,182
Expenses		
Amortization	5,772	2,958
Capital Replacement Reserve *(Note 3)*	1,072	1,038
General Administration and Marketing	8,418	6,660
Harmonized Sales Tax	5,561	7,168
Interest	9,664	9,369
Operator Fee *(Note 3)*	-	387
Other Expenses Including Cost of Beverage and Food	5,980	4,575
Premise Expense	2,737	2,868
Salaries and Benefits	19,795	18,855
Win Tax	12,906	12,631
	71,905	66,509
Net Income	(453)	2,673
Win Tax	12,906	12,631
Total Payment to Province	$ 12,453	$ 15,304

Sydney Casino Nova Scotia Operating Results

for the year ended March 31, 2002 (in thousands)

SCHEDULE III

	2002	2001 (Note 14)
Revenue		
Casino Revenue	$ 28,787	$ 29,305
Beverage, Food and Other Revenue	1,778	1,724
	30,565	31,029
Expenses		
Amortization	826	1,321
Capital Replacement Reserve *(Note 3)*	459	466
General Administration and Marketing	2,481	2,585
Harmonized Sales Tax	1,779	2,562
Interest	1,079	1,358
Operator Fee *(Note 3)*	1,989	2,037
Other Expenses Including Cost of Beverage and Food	1,896	1,546
Premise Expense	543	749
Salaries and Benefits	6,650	6,167
Win Tax	5,757	5,861
	23,459	24,652
Net Income	7,106	6,377
Win Tax	5,757	5,861
Total Payment to Province	$ 12,863	$ 12,238

Other Revenues and Expenses

for the year ended March 31, 2002 (in thousands)

SCHEDULE IV

	2002	2001
Other Revenues		
Payment from New Brunswick	$ 500	$ 500
Interest Income	317	516
Total Other Revenues	817	1,016
Other Expenses		
Special Payments and Bonus Commissions *(Note 5)*	209	213
Nova Scotia Harness Racing Fund Contribution *(Note 11)*	1,000	1,000
Income Guarantee Repayment *(Notes 2 and 3)*	-	700
Management Expenses		
Advertising	1	16
Amortization	27	28
Directors fees	44	25
Harmonized Sales Tax	144	273
Membership Dues	7	8
Occupancy Taxes	5	5
Office and Miscellaneous	41	48
Office Equipment	17	24
Periodicals	8	10
Postage and Freight	7	9
Printing and Stationery	13	18
Professional and Other Fees	650	702
Rent	98	57
Salaries and Benefits	1,431	1,233
Telecommunications	21	10
Training	26	44
Travel	43	32
	2,583	2,542
Total Other Expenses	3,792	4,455
	$ (2,975)	$ (3,439)

Nova Scotia Gaming Corporation Board of Directors

Chair

C. Sean O'Connor, CA
Vice President, Business Development
Municipal Group of Companies
Bedford, Nova Scotia

Director

Stephen Mont
Partner
Weldon McInnis
Barristers & Solicitors
Dartmouth, Nova Scotia

Director

Peter Fardy
Vice President, Corporate Development
xwave Solutions Inc.
Halifax, Nova Scotia

Director

John Khattar
Barrister & Solicitor
John G. Khattar Law Office
Sydney, Nova Scotia